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Agenda Item 4a

August 15, 2011

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. **SUBJECT:** Adoption of an amended Delegation Resolution for Real Assets to incorporate revisions related to the Infrastructure Program and an amended Delegation Resolution for Global Fixed Income
- II. **PROGRAM:** Infrastructure
- III. **RECOMMENDATION:** Recommend to the Investment Committee Adoption of the amended Delegation Resolution for Real Assets and the amended Delegation Resolution for Global Fixed Income
- IV. **ANALYSIS:**

Background

In December 2010, the Investment Committee (Committee) approved an alternative asset classification as part of the overall Strategic Asset Allocation process. The approved classification called for the creation of a new Real Assets class comprised of the Real Estate, Infrastructure, and Forestland programs. In March 2011, staff developed a single overarching Real Assets Policy to govern the consolidated program. Staff also developed a single *Delegation Resolution to the Professional Staff* (Delegation) for Real Assets, which contains specific provisions for each program.

In May 2011, the Committee approved the Real Assets Policy and Delegation for Real Assets, both effective July 1, 2011. As it was known at the time that the Infrastructure policy would be revised to reflect its Committee-approved Strategic Plan, substantive revisions to the delegations related to Infrastructure were not made.

This recommendation proposes revisions only to the Infrastructure-related provisions of the Delegation for Real Assets. For simplicity in this memo, the term Infrastructure Policy is used to refer to the Infrastructure attachment to the Real Assets Policy, and the term Infrastructure Delegation is used to refer to the Infrastructure delegation provisions of the Delegation for Real Assets.

The Investment Policy Subcommittee approved the Infrastructure Policy in June 2011, and the policy is under consideration by the Committee for approval in August 2011. Staff is presenting revisions to the Infrastructure Delegation to the

Committee concurrent with the Policy Subcommittee's recommendation to approve the proposed Infrastructure Policy. The changes conform the Infrastructure Delegation to the proposed Infrastructure Policy. In order to implement the hedging provisions of the Infrastructure Delegation, an amendment to the Delegation Resolution for Global Fixed Income is also proposed, as described in more detail in the following section.

Staff worked collaboratively with the Investment Strategy Group, Board Program Consultants, and the CalPERS Legal Office to solicit feedback and comments on the proposed Delegations. The General Pension Consultant, Wilshire Associates (Wilshire); and Board Infrastructure Consultant, Meketa, have reviewed the Infrastructure Delegation, and Wilshire has also reviewed the Global Fixed Income Delegation. Opinion letters are included in attachments as listed below.

List of Attachments

- Attachment 1 – Proposed and Current Infrastructure Program Delegations, Illustration Matrix
- Attachment 2 – Proposed Real Assets Delegation
- Attachment 3 – Wilshire Opinion Letter (Real Assets Delegation)
- Attachment 4 – Meketa Opinion Letter
- Attachment 5 – Proposed Global Fixed Income Delegation
- Attachment 6 - Wilshire Opinion Letter (Global Fixed Income Delegation)
- Attachment 7 – Guidelines for Delegating Investment Authority

Overview of Additions/Changes to Program Delegations

- A. The main purpose of the proposed Infrastructure Delegation is to conform it to changes in the Infrastructure Policy. The substantive changes in the proposed Infrastructure Delegation are limited to:
1. Adoption of new nomenclature for risk classifications consistent with the Committee-approved Infrastructure Strategic Plan and the Infrastructure Policy.
 2. Reductions to Infrastructure-related percentage caps for selected delegated amounts to maintain dollar cap amounts approximately in line with previously approved delegated authorities prior to the increases in the Infrastructure Strategic Allocation.
 3. Roundings of dollar caps in the Infrastructure Matrix consistent with other Real Assets Program Illustration Matrices.
 4. Provision of authority for undertaking Hedge Transactions for the limited purpose of risk mitigation consistent with the Infrastructure Policy and in coordination with CalPERS Fixed Income unit.

The provision relates to mitigating risk by hedging against changes to i) the US dollar value of investments, which includes amounts up to the acquisition cost, and/or distributions, and subsequent changes in fair value, to changes in foreign currency exchange rate; and ii) the acquisition financing of prospective investments to changes in interest rates for periods between transaction signing and transaction closing.

- B. The change to the Delegation Resolution for Global Fixed Income is required to implement item 4 above related to Hedge Transactions. The revision mirrors the existing currency authority provision in the Fixed Income Delegation by adding authority for the Fixed Income staff to implement interest rate hedges at the direction of the SIOs of other asset classes.

Consultant Concurrence

The Board Investment Consultants, Wilshire and Meketa have reviewed and concur with staff's recommendation. Representatives will be available to respond to any questions of the Committee.

Implementation

The amended Delegation Resolution for Real Assets and the amended Delegation Resolution for Global Fixed Income will become effective upon adoption by the Committee.

Delegated Authority Guidelines

In November 2006, the Committee adopted the *Guidelines for Delegating Investment Authority*, which addresses the role of the Board with respect to delegations and sub-delegations and are designed to provide guidance and consistency in granting authority. (For your reference, the *Guidelines* are included as Attachment 7.)

V. STRATEGIC PLAN:

The proposed revisions to the Real Assets Delegation will further the following CalPERS Strategic Plan goals:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

At this time the Investment Office does not anticipate any additional cost needed to implement the proposed revision to the Real Assets Delegation or the Global Fixed Income Delegation.

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